

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT

CORUNNA, MICHIGAN

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2005

## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
Report of Independent Accountants	I
Management's Discussion and Analysis	II - VIII
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Fiduciary Fund	
Statement of Fiduciary Net Assets	5
Notes to the Financial Statements	6 – 17
Required Supplementary Information	
Budgetary Comparison Schedules:	
General Fund	18
Special Education Fund	19
Other Supplemental Information	
Combining Balance Sheet – Capital Projects Fund	20
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Capital Projects Fund	21

## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
Individual Schedules of Revenues, Expenditures and Other Financing Uses:	
Schedule 1 - General Fund - Schedule of Revenues	22
Schedule 2 - General Fund - Schedule of Expenditures	23 – 24
Schedule 3 – Special Education Fund - Schedule of Revenues	25
Schedule 4 – Special Education Fund - Schedule of Expenditures	26 – 27
Other Supplemental Schedules:	
Schedule 5 - Trust and Agency Fund – Schedule of Receipts and Disbursements – Student Activities	29
Schedule 6 - Schedule of Bond Principal and Interest Requirements	30



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 16, 2005

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Shiawassee Regional Educational Service District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Shiawassee Regional Educational Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated August 16, 2005 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VIII and 18 - 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shiawassee Regional Educational Service District's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Shiawassee Regional Education Service District, located in Shiawassee County, Michigan, is in its third year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Shiawassee Regional Education Service District's (SRES) administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Special Education is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**District Wide Financial Statements: (Continued)**

These two statements report the Shiawassee Regional Educational Service District net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction and support services. Property taxes, unrestricted State aid, and State and federal grants finance most of these activities.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

**NET ASSETS SUMMARY**

	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>		
Current Assets	\$11,318,017	\$13,213,902
Non-Current Assets	<u>4,622,611</u>	<u>3,621,607</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$15,940,628</u></b>	<b><u>\$16,835,509</u></b>
<b><u>LIABILITIES</u></b>		
Current Liabilities	\$2,182,591	\$2,373,264
Long-Term Liabilities	<u>1,064,498</u>	<u>1,195,650</u>
Total Liabilities	\$3,247,089	\$3,568,914
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets - Net of Related debt	4,915,575	4,384,648
Unrestricted	<u>7,777,964</u>	<u>8,881,947</u>
Total Net Assets	<u>\$12,693,539</u>	<u>\$13,266,595</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$15,940,628</u></b>	<b><u>\$16,835,509</u></b>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$382,234	\$365,709
Property Taxes Levied for Special Education Services	6,284,916	6,020,658
State of Michigan Unrestricted Foundation Aid	3,534,413	4,457,213
Other General Revenues	<u>640,899</u>	<u>161,058</u>
Total General Revenues	\$10,842,462	\$11,004,638
<u>Operating Grants:</u>		
Federal	4,042,274	3,655,134
State of Michigan	1,729,183	1,753,696
Other Operating Grants	<u>738,474</u>	<u>727,998</u>
Total Operating Grants	\$6,509,931	\$6,136,828
<u>Charges for Services:</u>		
Other Charges for Services	<u>1,454,540</u>	<u>1,699,424</u>
Total Revenues	\$18,806,933	\$18,840,890
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	4,297,832	4,048,732
Support Services	14,981,698	14,362,224
Community Services	495	463
Other Capital Outlay	63,943	0
Depreciation	<u>36,021</u>	<u>36,021</u>
Total Expenses	<u>\$19,379,989</u>	<u>\$18,447,440</u>
<b><u>INCREASE IN NET ASSETS</u></b>	(\$573,056)	\$393,450
<b><u>BEGINNING NET ASSETS</u></b>	<u>13,266,595</u>	<u>12,873,145</u>
<b><u>ENDING NET ASSETS</u></b>	<u><u>\$12,693,539</u></u>	<u><u>\$13,266,595</u></u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets decreased by \$573,056 to a total of \$12,693,539. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$530,927 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The District's Unrestricted Net Assets decreased by \$1,103,983 during the year. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt. The restricted capital projects fund may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$573,056. The total revenues decreased by \$33,957 over last years amounts. The major changes were decreases in State of Michigan operating grants and unrestricted foundation aid. Expenditures increased by \$932,549 or 5% over last year. Major changes were increased transfers to local districts and salary and fringe benefit increases.

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$197,277 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year increased by \$542,185 primarily from increases in state aid and transfers from local districts. Expenditures decreased by \$419,327, primarily from reduction in federal grant programs that supported instruction and student services.

1. State of Michigan Aid (Section 81)

The State of Michigan aid provided under Section 81 of the State Aid Act provides the majority of state aid to the District's General Fund. Funding to the District under Section 81 is provided to comply with the requirements of the State Aid Act and to provide technical assistance to local districts as authorized by the intermediate school board. Funding under Section 81 was \$754,772 for the fiscal year a decrease of \$89,249 from the previous year.

2. Property Taxes Levied For General Operations (General Fund Homestead and Non-Homestead Taxes)

The District levies .2274 mills of property taxes for operations (General Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2004-2005 fiscal year was \$382,234. An increase of \$16,525 from the prior year.



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

Special Education Fund

Unreserved fund balance for the special education fund decreased by \$908,042 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year increased by \$163,387 primarily from increases in property tax and federal grants. Expenditures and other financing uses increased by \$1,855,732, primarily due to transfers to the local districts and salary and fringe benefit increases. The major source of special education revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Aid (Section 51)

The State of Michigan aid provided under Section 51 of the State Aid Act provides the majority of state aid to the District's Special Education Fund. Funding to the District under Section 51 is provided to reimburse the District for unreimbursed costs of special education programs, services and special education personnel. Funding under Section 51 was \$995,002 for the fiscal year a decrease of \$885,125 from the previous year due to an increase in Federal IDEA dollars that support special education programs.

2. Property Taxes Levied For General Operations (Special Education Fund Non-Homestead Taxes)

The District levies 3.739 mills of property taxes for operations (Special Education Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$6,284,916. An increase of \$264,258 from the prior year.

**BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original &amp; Final Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenue	\$3,469,592	\$3,737,119	\$3,600,631	7.71	3.65
Expenditures	3,688,668	3,926,025	3,797,908	6.43	3.26
<u>TOTAL</u>	<u>(\$219,076)</u>	<u>(\$188,906)</u>	<u>(\$197,277)</u>		

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**BUDGETARY HIGHLIGHTS (Continued):**

**SPECIAL EDUCATION FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final <u>Budget %</u>
Revenue	\$15,171,467	\$15,074,262	\$15,103,033	0.64	0.19
Expenditures	15,100,766	16,283,267	16,055,054	7.83	1.40
<u>TOTAL</u>	<u>\$70,701</u>	<u>(\$1,209,005)</u>	<u>(\$952,021)</u>		

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Shiawassee Regional Educational Service District amends its budget during the school year. The June, 2005 budget amendment was the final budget for the fiscal year.

The variance between original and final budget for Special Education was due to increased payments to the local districts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-04	Increases 6-30-05	Principal Payments 6-30-05	Principal Balance 6-30-05
Durant Bonds	\$1,017,392	\$0	\$0	\$1,017,392
Installment Contracts	129,227	0	52,733	76,494
Vacation & Sick Days Payable	101,765	0	1,336	100,429
<u>Total Long-Term Obligations</u>	<u>\$1,248,384</u>	<u>\$0</u>	<u>\$54,069</u>	<u>\$1,194,315</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**CAPITAL ASSET AND DEBT ADMINISTRATION:** (Continued)

B. Capital Assets

The district's net investment in capital assets decreased by \$46,202 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
Capital Assets	\$4,254,616	\$295,783	\$0	\$4,550,399
Less: Accumulated Depreciation	(2,098,748)	(341,985)	0	(2,440,733)
<u>Net Investment Capital Outlay</u>	<u>\$2,155,868</u>	<u>(\$46,202)</u>	<u>\$0</u>	<u>\$2,109,666</u>

Significant additions were the purchase of portable sites and two new buses.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Shiawassee Regional Educational Service District.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
STATEMENTS OF NET ASSETS  
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$8,952,842	\$10,755,556
Investments	572,867	562,310
Notes Receivable	189,941	192,690
Due from Other Governmental Units	1,490,268	1,682,295
Prepaid Expenses	112,099	21,051
Total Current Assets	<u>\$11,318,017</u>	<u>\$13,213,902</u>
<u>NON-CURRENT ASSETS</u>		
Construction in Progress	2,512,945	1,465,739
Capital Assets	4,550,399	4,254,616
Less: Accumulated Depreciation	(2,440,733)	(2,098,748)
Total Noncurrent Assets	<u>\$4,622,611</u>	<u>\$3,621,607</u>
<u>TOTAL ASSETS</u>	<u>\$15,940,628</u>	<u>\$16,835,509</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Notes Payable	225,248	258,636
Accounts Payable	16,934	0
Salaries Payable	758,396	799,694
Accrued Expenses	137,480	233,078
Deferred Revenue	914,716	1,029,122
Current Portion of Long-Term Obligations	129,817	52,734
Total Current Liabilities	<u>\$2,182,591</u>	<u>\$2,373,264</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>1,064,498</u>	<u>1,195,650</u>
<u>TOTAL LIABILITIES</u>	<u>\$3,247,089</u>	<u>\$3,568,914</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	4,915,575	4,384,648
Unrestricted	<u>7,777,964</u>	<u>8,881,947</u>
<u>TOTAL NET ASSETS</u>	<u>\$12,693,539</u>	<u>\$13,266,595</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
STATEMENTS OF ACTIVITIES  
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004
	Program Revenues		Net (Expense)	Net (Expense)
	Expenses	Charges For Services	Operating Grants and Contributions	Revenue & Change in Net Assets
Governmental Activities:				
Instruction	\$4,297,832	\$0	\$3,469,249	(\$828,583)
Support Services	14,981,698	1,454,540	3,040,682	(10,486,476)
Community Services	495	0	0	(495)
Other Capital Outlay	63,943	0	0	(63,943)
Depreciation - Unallocated	36,021	0	0	(36,021)
<u>TOTALS</u>	<u>\$19,379,989</u>	<u>\$1,454,540</u>	<u>\$6,509,931</u>	<u>(\$11,415,518)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				6,667,150
State Aid				3,534,413
Investment Earnings				133,147
Miscellaneous				507,752
Total General Revenues and Transfers				<u>\$10,842,462</u>
Change in Net Assets				(\$573,056)
Net Assets - Beginning				<u>13,266,595</u>
<u>Net Assets - Ending</u>				<u>\$12,693,539</u>
				<u>\$13,266,595</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General Fund	Special Education Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$3,952,672	\$3,758,543	\$1,241,627	\$8,952,842
Investments	24,105	526,578	22,184	572,867
Notes Receivable	189,941	0	0	189,941
Due From Other Governmental Units	1,258,544	108,685	123,039	1,490,268
Due From Other Funds	0	218,172	0	218,172
Prepaid Expenses	64,803	47,296	0	112,099
<u>TOTAL ASSETS</u>	<u>\$5,490,065</u>	<u>\$4,659,274</u>	<u>\$1,386,850</u>	<u>\$11,536,189</u>
<u>LIABILITIES</u>				
Notes Payable	\$225,248	\$0	\$0	\$225,248
Accounts Payable	11,747	5,187	0	16,934
Due to Other Funds	218,172	0	0	218,172
Salaries Payable	758,396	0	0	758,396
Accrued Expenses	0	137,480	0	137,480
Deferred Revenue	914,716	0	0	914,716
Total Liabilities	\$2,128,279	\$142,667	\$0	\$2,270,946
<u>FUND BALANCES</u>				
Reserved For:				
Capital Projects	0	0	1,386,850	1,386,850
Designated for Subsequent Years Expenditures	1,685,434	2,998,831	0	4,684,265
Unreserved:				
Undesignated, Reported In:				
General Fund	1,676,352	0	0	1,676,352
Special Education Fund	0	1,517,776	0	1,517,776
Total Fund Balances	\$3,361,786	\$4,516,607	\$1,386,850	\$9,265,243
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$5,490,065</u>	<u>\$4,659,274</u>	<u>\$1,386,850</u>	<u>\$11,536,189</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

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Total Governmental Fund Balances:	\$9,265,243
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Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$4,550,399 and the accumulated depreciation is \$2,440,733	2,109,666
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Construction in Progress	2,512,945
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Long-term liabilities, including bonds payable, are not due and  
payable in the current period and therefore are not reported as  
liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	\$1,017,392	
Installment Contracts	76,494	
Compensated Absences Payable	100,429	
Total Long-Term Liabilities	(1,194,315)	(1,194,315)

<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	\$12,693,539
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SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	General	Special	Other	Total
	Fund	Education	Governmental	Governmental
	Fund	Fund	Funds	Funds
<u>REVENUES</u>				
Local Sources	\$651,862	\$7,023,664	\$447,241	\$8,122,767
State Sources	1,017,268	4,087,079	159,249	5,263,596
Federal Sources	483,367	3,558,907	0	4,042,274
Total Revenues	\$2,152,497	\$14,669,650	\$606,490	\$17,428,637
<u>EXPENDITURES</u>				
Current:				
Instruction	824,915	3,472,917	0	4,297,832
Student Services	510,239	5,641,381	0	6,151,620
Instructional Support	1,141,037	1,307,226	0	2,448,263
General Administration	317,083	0	0	317,083
Business Administration	240,812	110,124	0	350,936
Operation & Maintenance of Plant	186,978	258,112	0	445,090
Transportation	0	1,284,594	0	1,284,594
Support Services - Other	576,844	141,800	0	718,644
Community Services	0	495	0	495
Capital Outlay	0	0	1,129,300	1,129,300
Total Expenditures	\$3,797,908	\$12,216,649	\$1,129,300	\$17,143,857
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(\$1,645,411)	\$2,453,001	(\$522,810)	\$284,780
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	547,200	(547,200)	0	0
Other Transfers	900,934	(2,813,843)	0	(1,912,909)
Total Other Financing Sources (Uses)	\$1,448,134	(\$3,361,043)	\$0	(\$1,912,909)
Net Change in Fund Balance	(\$197,277)	(\$908,042)	(\$522,810)	(\$1,628,129)
<u>FUND BALANCE - BEGINNING</u>	3,559,063	5,424,649	1,909,660	10,893,372
<u>FUND BALANCE - ENDING</u>	\$3,361,786	\$4,516,607	\$1,386,850	\$9,265,243

See accompanying notes to the basic financial statements.



SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

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Total net change in fund balances - governmental funds	(\$1,628,129)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(46,203)
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Construction in Progress	1,047,206
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	52,734
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Decrease in accrued compensated absences	<u>1,336</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$573,056)</u></u>
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SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2005

	<u>Trust &amp; Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$8,899</u>
<u>TOTAL ASSETS</u>	<u>\$8,899</u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$8,899</u>
<u>TOTAL LIABILITIES</u>	<u>\$8,899</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Shiawassee Regional Educational Service District conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Education Fund – The special education fund is used to account for financial resources to be used specifically for providing special education services to students within the School District.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Standard &amp; Poor's Rating</u>	<u>%</u>
MILAF External Investment Pool - MIMAX	<u>\$572,867</u>	<u>0.0027</u>	AAAm	<u>100.00%</u>

1 day maturity equals 0.0027, one year equals 1.00.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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4) DEPOSITS AND INVESTMENTS (Continued)

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$9,326,192 of the District's bank balance of \$9,626,192 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$8,899	\$ 8,961,741
Investments	<u>572,867</u>
<u>TOTAL</u>	<u>\$ 9,534,608</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 8,899
Cash – District Wide	8,952,842
Investments – District Wide	<u>572,867</u>
<u>TOTAL</u>	<u>\$ 9,534,608</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

6) RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 933,957
Federal Grants	48,060
Other	508,251
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 1,490,268</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the School District had estimated claims of \$6,510 in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2005.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2004</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2005</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$1,768,464	\$13,138	\$0	\$1,781,602
Land Improvements	33,060	0	0	33,060
Equipment and Furniture	1,068,266	149,193	0	1,217,459
Vehicles	1,384,826	133,452	0	1,518,278
Totals at Historical Cost	\$4,254,616	\$295,783	\$0	\$4,550,399
Less: Accumulated Depreciation				
Buildings and Improvements	(651,111)	(36,021)	0	(687,132)
Land Improvements	(16,232)	(253)	0	(16,485)
Equipment and Furniture	(538,076)	(140,760)	0	(678,836)
Vehicles	(893,329)	(164,951)	0	(1,058,280)
Total Accumulated Depreciation	<u>(\$2,098,748)</u>	<u>(\$341,985)</u>	<u>\$0</u>	<u>(\$2,440,733)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$2,155,868</u>	<u>(\$46,202)</u>	<u>\$0</u>	<u>\$2,109,666</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 305,964
Unallocated	36,021
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 341,985</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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9) CAPITAL ASSETS (Continued)

Investment in capital assets – net of related debt consists of the following:

Construction in Progress	\$ 2,512,945
Capital Assets	4,550,399
Less: Accumulated Depreciation	(2,440,733)
Less: Long-Term Liabilities	(1,194,315)
Compensated Absences	100,429
Capital Projects Fund Equity	<u>1,386,850</u>
 <u>TOTAL</u>	 <u>\$ 4,915,575</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2005 were \$48,726 and the School District received a dividend refund of \$42,242.

11) GENERAL LONG-TERM DEBT

A) Durant Resolution Package Bonds

Shiawassee Regional Educational Service District issued Durant Resolution Bonds on November 24, 1998 in the amount of \$2,106,774 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$1,017,392. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

B) Installment Contracts

Shiawassee Regional Educational Service District is indebted to Dell Marketing, L.P. in the amount of \$142,557 for computer equipment. The notes require annual principal payments per annum of \$47,519 and interest at 2.48% per annum. The contract matures October, 2006. The balance as of June 30, 2005 was \$71,279.

Shiawassee Regional Educational Service District is indebted to Gateway Business in the amount of \$15,645 for computer equipment. The notes require annual principal payments per annum of \$5,215 and interest at 2.48% per annum. The contract matures March, 2006. The balance as of June 30, 2005 was \$5,215.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

11) GENERAL LONG-TERM DEBT (Continued)

C) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2005 are as follows:

	<u>INSTALLMENT CONTRACTS</u>	<u>BONDS PAYABLE</u>	<u>INTEREST</u>	<u>TOTAL</u>
June 30, 2006	\$52,734	\$77,083	\$36,220	\$166,037
June 30, 2007	23,760	80,734	31,372	135,866
June 30, 2008	0	84,598	27,233	111,831
June 30, 2009	0	88,627	23,205	111,832
June 30, 2010	0	92,843	18,985	111,828
June 30, 2011-2013	0	593,507	157,868	751,375
<u>TOTAL</u>	<u>\$76,494</u>	<u>\$1,017,392</u>	<u>\$294,883</u>	<u>\$1,388,769</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$2,652.

D) Changes in General Long-Term Debt

	<u>BALANCE JULY 1, 2004</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2005</u>	<u>AMOUNT DUE IN ONE YEAR</u>
<u>Governmental Activities:</u>					
Durant Bonds	\$1,017,392	\$0	\$0	\$1,017,392	\$77,083
Installment Contracts	129,227	0	52,733	76,494	52,734
Vacation & Sick Days Payable	101,765	0	1,336	100,429	0
<u>Total Governmental Activities</u>	<u>\$1,248,384</u>	<u>\$0</u>	<u>\$54,069</u>	<u>\$1,194,315</u>	<u>\$129,817</u>

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2005 consisted of the following:

<u>DUE FROM</u>	
<u>DUE TO</u>	<u>SPECIAL EDUCATION FUND</u>
General Fund	<u>\$218,172</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	
		SPECIAL
		EDUCATION
		<u>FUND</u>
General Fund		<u>\$547,200</u>

The transfers are reimbursements to the general fund from the special education fund for overhead costs that are calculated annually and approved by the board.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$1,246,361, \$1,066,618 and \$1,018,797, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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15) RISK MANAGEMENT (Continued)

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which are the Special Education Cluster Grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2005, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$616,255	\$650,282	\$651,862	\$1,580
State Sources	784,300	1,012,324	1,017,268	4,944
Federal Sources	531,242	543,570	483,367	(60,203)
Total Revenues	<u>\$1,931,797</u>	<u>\$2,206,176</u>	<u>\$2,152,497</u>	<u>(\$53,679)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	750,111	892,570	824,915	67,655
Student Services	335,390	543,000	510,239	32,761
Instructional Support	1,227,536	1,158,435	1,141,037	17,398
General Administration	349,516	319,720	317,083	2,637
Business Administration	255,509	241,400	240,812	588
Operation & Maintenance of Plant	193,525	188,900	186,978	1,922
Support Services - Other	577,081	582,000	576,844	5,156
Total Expenditures	<u>\$3,688,668</u>	<u>\$3,926,025</u>	<u>\$3,797,908</u>	<u>\$128,117</u>
Excess of Revenues Over Expenditures	<u>(\$1,756,871)</u>	<u>(\$1,719,849)</u>	<u>(\$1,645,411)</u>	<u>\$74,438</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>1,537,795</u>	<u>1,530,943</u>	<u>1,448,134</u>	<u>(82,809)</u>
Total Other Financing Sources (Uses)	<u>\$1,537,795</u>	<u>\$1,530,943</u>	<u>\$1,448,134</u>	<u>(\$82,809)</u>
Net Change in Fund Balance	<u>(\$219,076)</u>	<u>(\$188,906)</u>	<u>(\$197,277)</u>	<u>(\$8,371)</u>
<u>FUND BALANCE - BEGINNING</u>			<u>3,559,063</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$3,361,786</u>	



SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
SPECIAL EDUCATION FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$6,308,112	\$6,398,865	\$7,023,664	\$624,799
State Sources	5,085,924	4,783,492	4,087,079	(696,413)
Federal Sources	3,277,431	3,414,543	3,558,907	144,364
Total Revenues	<u>\$14,671,467</u>	<u>\$14,596,900</u>	<u>\$14,669,650</u>	<u>\$72,750</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,302,669	3,515,405	3,472,917	42,488
Student Services	6,006,986	5,743,476	5,641,381	102,095
Instructional Support	1,456,904	1,337,270	1,307,226	30,044
Business Administration	85,000	116,500	110,124	6,376
Operation & Maintenance of Plant	287,315	266,725	258,112	8,613
Transportation	1,377,702	1,317,747	1,284,594	33,153
Support Services - Other	165,000	146,600	141,800	4,800
Community Services	1,000	1,000	495	505
Total Expenditures	<u>\$12,682,576</u>	<u>\$12,444,723</u>	<u>\$12,216,649</u>	<u>\$228,074</u>
Excess of Revenues Over Expenditures	<u>\$1,988,891</u>	<u>\$2,152,177</u>	<u>\$2,453,001</u>	<u>\$300,824</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(1,918,190)</u>	<u>(3,361,182)</u>	<u>(3,361,043)</u>	<u>139</u>
Total Other Financing Sources (Uses)	<u>(\$1,918,190)</u>	<u>(\$3,361,182)</u>	<u>(\$3,361,043)</u>	<u>\$139</u>
Net Change in Fund Balance	<u>\$70,701</u>	<u>(\$1,209,005)</u>	<u>(\$908,042)</u>	<u>\$300,963</u>
<u>FUND BALANCE - BEGINNING</u>			<u>5,424,649</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$4,516,607</u>	

OTHER SUPPLEMENTAL  
INFORMATION

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
CAPITAL PROJECTS FUND  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2005

	Building & Site	1992 Construction	Durant I	Durant II	TOTAL
<u>ASSETS</u>					
Cash and Cash Equivalents	\$568,715	\$0	\$371,014	\$301,898	\$1,241,627
Investments	22,184	0	0	0	22,184
Due From Other Governmental Units	0	0	0	123,039	123,039
<u>TOTAL ASSETS</u>	<u>\$590,899</u>	<u>\$0</u>	<u>\$371,014</u>	<u>\$424,937</u>	<u>\$1,386,850</u>
<u>FUND EQUITY</u>					
Fund Balance - Reserved Capital Projects	<u>\$590,899</u>	<u>\$0</u>	<u>\$371,014</u>	<u>\$424,937</u>	<u>\$1,386,850</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
CAPITAL PROJECTS FUND  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2005

	Building & Site	1992 Construction	Durant I	Durant II	Total After Interfund Eliminations
<u>REVENUES</u>					
<u>Local Sources</u>					
Earnings on Investments and Deposits	\$5,018	\$0	\$4,458	\$3,423	\$12,899
Miscellaneous Revenue	930	0	0	433,412	434,342
Total Local Sources	\$5,948	\$0	\$4,458	\$436,835	\$447,241
<u>State Sources</u>	0	0	159,249	0	159,249
Total Revenues	\$5,948	\$0	\$163,707	\$436,835	\$606,490
<u>OTHER FINANCING SOURCES</u>					
Transfer from Other Capital Projects Funds	71,007	0	0	0	0
Total Revenue & Other Financing Sources	\$76,955	\$0	\$163,707	\$436,835	\$606,490
<u>EXPENDITURES</u>					
Purchased Services	0	0	391,563	655,643	1,047,206
Miscellaneous Expenses	17,103	0	0	64,991	82,094
Total Expenditures	\$17,103	\$0	\$391,563	\$720,634	\$1,129,300
<u>OTHER FINANCING USES</u>					
Transfer to Other Capital Projects Funds	0	71,007	0	0	0
Total Expenditures & Other Financing Uses	\$17,103	\$71,007	\$391,563	\$720,634	\$1,129,300
<u>EXCESS REVENUES &amp; OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES &amp; OTHER FINANCING USES</u>					
	\$59,852	(\$71,007)	(\$227,856)	(\$283,799)	(\$522,810)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	531,047	71,007	598,870	708,736	1,909,660
<u>FUND BALANCE - END OF YEAR</u>	\$590,899	\$0	\$371,014	\$424,937	\$1,386,850

INDIVIDUAL FUND SCHEDULES OF  
REVENUES, EXPENDITURES AND  
OTHER FINANCING USES

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2005

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REVENUES FROM
Local Sources

Current Tax Levy	\$382,234
Earnings on Investments and Deposits	58,945
Other Local Revenues	210,683
Total Local Sources	<u>\$651,862</u>

State Sources

ASAP Pie Grant	168,105
Section 81	754,772
Vocational Education	22,014
Great Parents	57,805
Other State Grants	14,572
Total State Sources	<u>\$1,017,268</u>

Federal Sources

IASA Title V	790
Vocational Education	221,991
Work Force Investment Act	243,615
Improving Teacher Quality	944
Tech Prep	16,027
Total Federal Sources	<u>\$483,367</u>
Total Revenues	<u>\$2,152,497</u>

OTHER FINANCING SOURCES

Transfers from Other Funds	547,200
Transfers from Other Districts	682,499
Other Transfers	218,435
Total Other Financing Sources	<u>\$1,448,134</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES
\$3,600,631

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTIONVocational Education

Salaries - Professional	\$104,765
Salaries - Non-Professional	79,136
Insurances	39,736
Fica, Retirement, Etc.	40,085
Purchased Services	139,702
Supplies and Materials	55,899
Other	33,183
Total Vocational Education	<u>\$492,506</u>

Adult Education

Salaries - Professional	86,957
Salaries - Non-Professional	63,380
Insurances	15,604
Fica, Retirement, Etc.	24,905
Purchased Services	91,909
Supplies and Materials	28,102
Other	21,552
Total Adult Education	<u>\$332,409</u>

Total Instruction

\$824,915

SUPPORT SERVICESStudent Services

Salaries - Professional	140,813
Salaries - Non-Professional	9,601
Insurances	35,744
Fica, Retirement, Etc.	17,671
Purchased Services	162,601
Supplies and Materials	138,948
Other	4,861
Total Student Services	<u>\$510,239</u>

Instructional Staff

Salaries - Professional	166,358
Salaries - Non-Professional	362,564
Insurances	129,539
Fica, Retirement, Etc.	117,215
Purchased Services	225,567
Supplies and Materials	86,423
Capital Outlay	7,000
Other	46,371
Total Instructional Staff	<u>\$1,141,037</u>

General AdministrationBoard of Education

Salaries - Professional	2,165
Purchased Services	2,420
Other	2,658
Total Board of Education	<u>\$7,243</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)General AdministrationExecutive Administration

Salaries - Professional	\$139,500
Salaries - Non-Professional	46,323
Insurances	19,081
Fica, Retirement, Etc.	37,506
Purchased Services	42,805
Supplies and Materials	8,491
Capital Outlay	6,689
Other	9,445
Total Executive Administration	<u>\$309,840</u>

Total General Administration	\$317,083
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Business Office

Salaries - Professional	146,481
Insurances	43,726
Fica, Retirement, Etc.	32,357
Purchased Services	10,025
Supplies and Materials	4,945
Other	3,278
Total Business Office	<u>\$240,812</u>

Operation and Maintenance

Salaries - Non-Professional	31,768
Insurances	14,493
Fica, Retirement, Etc.	6,661
Purchased Services	129,777
Supplies and Materials	4,102
Capital Outlay	177
Total Operation and Maintenance	<u>\$186,978</u>

Other Support Services

Salaries - Professional	39,166
Salaries - Non-Professional	232,723
Insurances	101,469
Fica, Retirement, Etc.	60,099
Purchased Services	99,441
Supplies and Materials	17,912
Other	26,034
Total Other Support Services	<u>\$576,844</u>

<u>Total Support Services</u>	<u>\$2,972,993</u>
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<u>TOTAL EXPENDITURES</u>	<u><u>\$3,797,908</u></u>
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SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
SPECIAL EDUCATION FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2005

REVENUES FROMLocal Sources

Property Tax Levy	\$6,284,916
Earnings on Investments and Deposits	61,303
Transportation	19,965
Medicaid	629,849
Other Local Revenues	27,631
Total Revenues from Local Sources	<u>\$7,023,664</u>

State Sources

Special Education - Sec 51 a	995,002
Section 52	1,307,438
Section 56	1,354,882
Section 81	245,058
Other State Grants	184,699
Total Revenues from State Sources	<u>\$4,087,079</u>

Federal Sources

I.D.E.A. Flowthrough	2,732,359
Preschool	120,020
Title I	6,206
State Initiated	40,000
Technology Training	3,146
Transition Services	49,822
Capacity Building	29,329
Even Start	225,000
Early On	207,469
Emergency Response	5,000
Medicaid - Transportation & Outreach	140,556
Total Revenues from Federal Sources	<u>\$3,558,907</u>
Total Revenues	<u>\$14,669,650</u>

OTHER FINANCING SOURCES

Transfers from Other Districts	<u>477,362</u>
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TOTAL REVENUES AND OTHER FINANCING  
SOURCES

\$15,147,012

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
SPECIAL EDUCATION FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION

Salaries - Professional	\$1,220,145
Salaries - Non-Professional	765,265
Insurances	688,993
Fica, Retirement, Etc.	454,682
Purchased Services	289,713
Supplies and Materials	46,381
Capital Outlay	7,738
<u>Total Instruction</u>	<u>\$3,472,917</u>

SUPPORT SERVICESStudent ServicesHealth

Salaries - Professional	449,025
Salaries - Non-Professional	89,445
Insurances	135,382
Fica, Retirement, Etc.	108,061
Purchased Services	30,555
Supplies and Materials	3,805
Capital Outlay	954
<u>Total Health</u>	<u>\$817,227</u>

Psychological

Salaries - Professional	473,217
Insurances	94,294
Fica, Retirement, Etc.	104,148
Purchased Services	23,184
Supplies and Materials	14,161
<u>Total Psychological</u>	<u>\$709,004</u>

Speech Pathology

Salaries - Professional	806,231
Insurances	186,515
Fica, Retirement, Etc.	168,434
Purchased Services	12,311
Supplies and Materials	13,398
<u>Total Speech Pathology</u>	<u>\$1,186,889</u>

Social Worker

Salaries - Professional	1,364,449
Insurances	305,900
Fica, Retirement, Etc.	304,892
Purchased Services	68,626
Supplies and Materials	10,462
<u>Total Social Worker</u>	<u>\$2,054,329</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
SPECIAL EDUCATION FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)

Student Services (Continued)

Infant/Toddler

Salaries - Professional	\$187,084
Salaries - Non-Professional	5,475
Insurances	44,206
Fica, Retirement, Etc.	43,823
Purchased Services	5,964
Supplies and Materials	3,812
Total Infant/Toddler	<u>\$290,364</u>

Other Pupil Support

Salaries - Professional	266,710
Salaries - Non-Professional	46,327
Insurances	88,022
Fica, Retirement, Etc.	67,428
Purchased Services	92,201
Supplies and Materials	22,880
Total Other Pupil Support	<u>\$583,568</u>

Total Student Services	\$5,641,381
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Instructional Support

Professional Development

Purchased Services	10,965
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Supervision & Direction

Salaries - Professional	368,546
Salaries - Non-Professional	173,327
Insurances	159,310
Fica, Retirement, Etc.	131,102
Purchased Services	148,025
Supplies and Materials	17,152
Other	8,538
Total Supervision & Direction	<u>\$1,006,000</u>

Development Center

Salaries - Professional	165,434
Salaries - Non-Professional	51,083
Insurances	31,364
Fica, Retirement, Etc.	33,246
Purchased Services	2,640
Supplies and Materials	6,494
Total Development Center	<u>\$290,261</u>

Total Instructional Support	\$1,307,226
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SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
SPECIAL EDUCATION FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)

Business Office

Salaries - Non-Professional	\$2,317
Purchased Services	68,792
Supplies and Materials	39,015
Total Business Office	<u>\$110,124</u>

Operation and Maintenance

Salaries - Non-Professional	78,432
Insurances	28,985
Fica, Retirement, Etc.	17,352
Purchased Services	85,996
Supplies and Materials	7,530
Capital Outlay	39,817
Total Operation and Maintenance	<u>\$258,112</u>

Transportation

Salaries - Professional	41,041
Salaries - Non-Professional	486,848
Insurances	263,924
Fica, Retirement, Etc.	119,727
Purchased Services	68,970
Supplies and Materials	170,632
Capital Outlay	133,452
Total Transportation	<u>\$1,284,594</u>

Other Support Services

Salaries - Professional	32,278
Fica, Retirement, Etc.	7,129
Purchased Services	57,334
Supplies and Materials	16
Capital Outlay	45,043
Total Other Support Services	<u>\$141,800</u>

Total Support Services

\$8,743,237

COMMUNITY SERVICES

Purchased Services	216
Supplies and Materials	183
Other	96
Total Community Services	<u>\$495</u>

Total Expenditures

\$12,216,649

OTHER FINANCING USES

Transfers to Other Funds	547,200
Transfers to Other Districts	3,291,205
Total Other Financing Uses	<u>\$3,838,405</u>

TOTAL EXPENDITURES & OTHER FINANCING USES

\$16,055,054

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - OTHER GROUPS  
FOR THE YEAR ENDED JUNE 30, 2005

	DUE TO (FROM) OTHER GROUPS			DUE TO (FROM) OTHER GROUPS
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
AI Room - DC - Gallagher	\$64	\$300	\$254	\$110
AI Room - Elbing	380	2,304	2,306	378
EI/Lincoln/Jones	0	309	298	11
EI Room - Bryant	6	24	0	30
EI Room - Central	76	23	0	99
EI Room - Central - Klinkoski	46	0	0	46
EI Room - OMS/Creech	395	500	518	377
Infant - Toddler	402	1,059	809	652
Jones Leisure Acct	0	945	0	945
Pajot Classroom	483	1,866	1,794	555
Pre-School/Dev. Center	1,704	831	1,527	1,008
Purcell	100	0	0	100
Pyles	0	1,750	0	1,750
Shiawassee Development Center	181	0	181	0
SMI - Dev. Center	570	392	709	253
SXI - Dev. Center	369	23	100	292
TMI - Bryant/Wittenberg	137	23	137	23
TMI - CHS/Williams	330	340	441	229
TMI - CMS/Sinn	533	483	300	716
TMI - HS/Vassilakos	615	0	481	134
TMI - NR/Boilore	1,251	351	411	1,191
<u>TOTAL</u>	<u>\$7,642</u>	<u>\$11,523</u>	<u>\$10,266</u>	<u>\$8,899</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2005

1998 DURANT RESOLUTION PACKAGE BONDS

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$2,106,774

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$77,083	4.761353%	\$34,747	\$111,830
2007	80,734	4.761353%	31,077	111,811
2008	84,598	4.761353%	27,233	111,831
2009	88,627	4.761353%	23,205	111,832
2010	92,843	4.761353%	18,985	111,828
2011	384,875	4.761353%	142,852	527,727
2012	101,891	4.761353%	9,934	111,825
2013	106,741	4.761353%	5,082	111,823
<u>TOTAL</u>	<u>\$1,017,392</u>		<u>\$293,115</u>	<u>\$1,310,507</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT

CORUNNA, MICHIGAN

FEDERAL AWARDS  
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2005

## CONTENTS

	<u>PAGE</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	2 – 3
Schedule of Expenditures of Federal Awards for the year ended June 30, 2005	4 – 5
Notes/Reconciliation to the Schedule of Expenditures of Federal Awards for the year ended June 30, 2005	6
Reconciliation of Form R7120 "Grant Section Auditor's Report" to the Schedule of Expenditures of Federal Awards for the year ended June 30, 2005	7
Summary of Findings and Questioned Costs for the year ended June 30, 2005	8
Schedule of Expenditures of Federal Awards Provided to Subrecipients	9





*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 16, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of  
Shiawassee Regional Educational Service District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District, as of and for the year ended June 30, 2005, which collectively comprise the Shiawassee Regional Educational Service District's basic financial statements and have issued our report thereon dated August 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shiawassee Regional Educational Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shiawassee Regional Educational Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Shiawassee Regional Educational Service District, in a separate letter dated August 16, 2005.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 16, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Board of Education of  
Shiawassee Regional Educational Service District

Compliance

We have audited the compliance of Shiawassee Regional Educational Service District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Shiawassee Regional Educational Service District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shiawassee Regional Educational Service District's management. Our responsibility is to express an opinion on Shiawassee Regional Educational Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shiawassee Regional Educational Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shiawassee Regional Educational Service District's compliance with those requirements.

In our opinion, Shiawassee Regional Educational Service District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Shiawassee Regional Educational Service District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shiawassee Regional Educational Service District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Shiawassee Regional Educational Service District

Page 2

August 16, 2005

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 16, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Shiawassee Regional Educational Service District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*

LEWIS & KNOFF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies:	84.010		
Title I Regular (04-05)		51700-0405	\$3,310
Title I Regular (03-04)		41700-0304	2,896
Total Title I Grants to Local Educational Agencies			<u>\$6,206</u>
Special Education - Grants to States	84.027		
IDEA Flowthrough (03-04)		40450-0304	2,183,332
IDEA Flowthrough (02-03) Carryover		30450-0203C	149,964
IDEA Flowthrough (04-05)		50450-0405	2,523,954
State Initiated Competitive (04-05)		50480-EOSD	40,000
Capacity Building (04-05)		50490-CB	29,329
Transition Services (03-04)		40490-TS	70,000
Transition Services (04-05)		50490-TS	70,000
Total Special Education - Grants to States			<u>\$5,066,579</u>
Vocational Education - Basic Grants to States	84.048		
Vocational Education Data Collection (03-04)		43470-4017	305,712
Special Education - Preschool Grants	84.173		
Preschool Incentive (03-04)		40460-0304	119,463
Preschool Incentive (04-05)		50460-0405	119,350
Total Special Education - Preschool Grants			<u>\$238,813</u>
Special Education - Grants for Infants & Families with Disabilities	84.181		
Formula Grant (03-04)		41340-190	144,244
Formula Grant (03-04)		31340-190C	62,321
Formula Grant (04-05)		51340-190	127,760
Formula Grant (02-03)		31340-190	64,881
Total Special Education - Grants for Infants & Families with Disabilities			<u>\$399,206</u>
William F. Goodling Even Start Family Literacy	84.213		
Even Start (03-04)		40390-B04116CES	225,000
Even Start (04-05)		50390-C0537CES	225,000
Total William F. Goodling Even Start Family Literacy			<u>\$450,000</u>
Innovative Education Program Strategies	84.298		
Title V (03-04)		40250-0304	809
Title V (04-05)		50250-0405	1,377
Total Innovative Education Program Strategies			<u>\$2,186</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$0	\$0	\$3,310	\$0	\$3,310	\$0
0	0	2,896	0	2,896	0
<u>\$0</u>	<u>\$0</u>	<u>\$6,206</u>	<u>\$0</u>	<u>\$6,206</u>	<u>\$0</u>
349,544	1,974,927	208,405	0	557,949	0
60,754	149,964	0	0	60,754	0
0	0	2,523,954	0	2,523,954	0
0	0	40,000	0	40,000	0
0	0	29,329	0	29,329	0
34,988	70,000	0	0	34,988	0
0	0	49,822	0	49,822	0
<u>\$445,286</u>	<u>\$2,194,891</u>	<u>\$2,851,510</u>	<u>\$0</u>	<u>\$3,296,796</u>	<u>\$0</u>
128,017	236,769	68,943	0	196,960	0
28,543	34,726	670	0	29,213	0
0	0	119,350	0	119,350	0
<u>\$28,543</u>	<u>\$34,726</u>	<u>\$120,020</u>	<u>\$0</u>	<u>\$148,563</u>	<u>\$0</u>
(47,413)	77,477	110,746	3,434	66,767	0
62,321	62,321	0	(62,321)	0	0
0	0	96,723	0	96,723	0
(58,887)	0	0	58,887	0	0
<u>(\$43,979)</u>	<u>\$139,798</u>	<u>\$207,469</u>	<u>\$0</u>	<u>\$163,490</u>	<u>\$0</u>
36,623	224,999	0		36,623	0
0	0	225,000	0	225,000	0
<u>\$36,623</u>	<u>\$224,999</u>	<u>\$225,000</u>	<u>\$0</u>	<u>\$261,623</u>	<u>\$0</u>
809	809	0	0	809	0
0	0	790	0	790	0
<u>\$809</u>	<u>\$809</u>	<u>\$790</u>	<u>\$0</u>	<u>\$1,599</u>	<u>\$0</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u> (Continued)			
Passed Through Michigan Department of Education:			
Improving Teacher Quality	84.367		
Title IIA (03-04)		40520-0304	\$991
Title IIA (04-05)		50520-0405	944
Total Improving Teacher Quality			<u>\$1,935</u>
Total Passed through Michigan Department of Education			<u>\$6,470,637</u>
Passed through Genesee Intermediate School District			
Special Education - Grants to States	84.027		
Special Ed Technology Materials & Training (04-05)		50480-TMT	3,146
Vocational Education - Basic Grants to States	84.048		
Secondary Regional Education (04-05)		53520-5012-15	154,164
Secondary Regional Education (04-05)		53520-5014-15	19,251
Secondary Regional Education (03-04)		43520-4012-15	<u>153,379</u>
Total Vocational Education - Basic Grants to States			<u>\$326,794</u>
Career Technical Education	84.243		
Entrepreneurship Curriculum Development - (04-05)		43270-50273	1,293
Emergency Response Plans (03-04)	87.184E	Q1484E030509	<u>5,000</u>
Total Passed through Genesee Intermediate School District			<u>\$336,233</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			<u>\$6,806,870</u>
<u>U.S. EMPLOYMENT &amp; TRAINING ADMINISTRATION</u>			
Passed through Career Alliance, Inc.			
Workforce Investment Act Title I (Summer) (04-05)	17.250	028-K-04	108,390
Workforce Investment Act Title I (Year-Round) (04-05)		028-K-04	134,360
Workforce Investment Act Title I (Summer) (02-03)		028-K-02	163,875
Workforce Investment Act Title I (Year-Round) (03-04)		028-K-03	<u>197,135</u>
			<u>\$603,760</u>
<u>TOTAL U.S. EMPLOYMENT &amp; TRAINING ADMINISTRATION</u>			
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Michigan Department of Community Health	93.778		
Administrative Outreach		N/A	111,806
School Based Services - Transportation		N/A	<u>28,750</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			<u>\$140,556</u>
<u>TOTAL</u>			<u><u>\$7,551,186</u></u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$991 0	\$991 0	\$0 944	\$0 0	\$991 944	\$0 0
\$991	\$991	\$944	\$0	\$1,935	\$0
\$596,290	\$2,832,983	\$3,480,882	\$0	\$4,077,172	\$0
0	0	3,146	0	0	3,146
0	0	122,540	0	154,164	(31,624)
0	0	13,300	0	0	13,300
(31,942)	121,755	31,942	0	0	0
(\$31,942)	\$121,755	\$167,782	\$0	\$154,164	(\$18,324)
0	0	1,293	0	0	1,293
0	0	5,000	0	5,000	0
(\$31,942)	\$121,755	\$177,221	\$0	\$159,164	(\$13,885)
\$564,348	\$2,954,738	\$3,658,103	\$0	\$4,236,336	(\$13,885)
0	0	108,390	0	108,390	0
0	0	134,360	0	105,473	28,887
41,242	163,875	0	0	41,242	0
44,348	187,992	865	0	45,213	0
\$85,590	\$351,867	\$243,615	\$0	\$300,318	\$28,887
0	0	111,806	0	111,806	0
0	0	28,750	0	28,750	0
\$0	\$0	\$140,556	\$0	\$140,556	\$0
\$649,938	\$3,306,605	\$4,042,274	\$0	\$4,677,210	\$15,002

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

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FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS

\$4,042,274

FEDERAL REVENUE RECOGNIZED PER THE GENERAL  
PURPOSE FINANCIAL STATEMENTS

General Fund

\$483,367

Special Education Fund

3,558,907

TOTAL

\$4,042,274

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 7 of this report.
- 3) Adjustments are shown in the Special Education - Grants for Infants and Families with Disabilities to reflect the State of Michigan's changes within these grants.



SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
RECONCILIATION OF FORM R 7120 " GRANT SECTION AUDITOR'S REPORT"  
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

<hr/>		
Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$3,434,007
<u>Add:</u> Grants Passed through Genesee Intermediate School District		
Vocational Education - Grants to States (CFDA 84.048)	154,164	
Emergency Response Plan (CFDA 87.184E)	5,000	
Total Grants Passed through Genesee Intermediate School District		159,164
Passed through Workforce Development Board & Michigan Works Workforce Investment Act (CFDA 17.250)		300,318
Passed Through the Michigan Department of Community Health Medicaid - Outreach & Transportation (CFDA 93.778)		140,556
<u>Add:</u> Timing Differences between R-7120 and District Receipt of Funds		
Flowthrough 02-03	\$60,754	
Transition (03-04)	34,988	
Voc Ed (03-04)	128,017	
PreSchool (03-04)	28,543	
Even Start (03-04)	36,623	
Title V (03-04)	809	
Title IIA (03-04)	991	
Flowthrough (03-04)	349,544	
Title 1 (03/04)	2,896	
		643,165
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES</u> <u>OF FEDERAL AWARDS</u>		\$4,677,210

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
SUMMARY OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005

---

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)  
84.027/84.173

Name of Federal Program or Cluster  
Special Education Cluster

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

There were no current year findings.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no current year findings.

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

There were no prior year findings.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS  
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE/ SUBRECIPIENT	FEDERAL CFDA NUMBER	SUBRECIPIENT PROJECT NUMBER	SUBRECIPIENT AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<u>Innovative Education Program Strategies - Title V</u>	84.298	50250-0405	
Owosso Christian School			\$30
Salem Lutheran School			70
Shiawassee RESD			190
St. Paul School			100
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			\$390
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<u>Medicaid Assistance</u>	93.778	N/A	
<u>Administrative Outreach</u>			
Byron Area Schools			1,699
Corunna Public Schools			3,357
Durand Area Schools			2,873
Laingsburg Community Schools			2,193
Morrice Area Schools			786
New Lothrop Schools			810
Owosso Schools			6,180
Perry Schools			3,047
Total Medicaid Assistance			\$20,945
<u>TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS</u>			\$21,335

<u>DUE TO (FROM)</u> <u>SUBRECIPIENTS</u> <u>JULY 1, 2004</u>	<u>SUBRECIPIENTS</u> <u>PRIOR YEAR</u> <u>EXPENDITURES</u>	<u>CURRENT YEAR</u> <u>CASH TRANSFERRED</u> <u>TO SUBRECIPIENTS</u>	<u>EXPENDITURES</u> <u>REPORTED BY</u> <u>SUBRECIPIENTS</u>	<u>DUE TO (FROM)</u> <u>SUBRECIPIENTS</u> <u>JUNE 30, 2005</u>
\$0	\$0	\$30	\$30	\$0
0	0	70	70	0
0	0	190	190	0
0	0	100	100	0
\$0	\$0	\$390	\$390	\$0
0	0	1,699	1,699	0
0	0	3,357	3,357	0
0	0	2,873	2,873	0
0	0	2,193	2,193	0
0	0	786	786	0
0	0	810	810	0
0	0	6,180	6,180	0
0	0	3,047	3,047	0
\$0	\$0	\$20,945	\$20,945	\$0
\$0	\$0	\$21,335	\$21,335	\$0



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 16, 2005

To the Board of Education of  
Shiawassee Regional Educational Service District

In planning and performing our audit of the financial statements of Shiawassee Regional Educational Service District for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Shiawassee Regional Educational Service District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

#### FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Shiawassee Regional Educational Service District, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.



Shiawassee Regional Educational Service District

Page 2

August 16, 2005

### State of Michigan – ISD Legislation

This past year has been filled with legislation that will impact Intermediate School Districts across the State of Michigan. A summary of some of the more relevant legislation is as follows:

- HB 5921 – ISD Governance – provides new legislation about the number of members allowed on an ISD board, the composition of the members of the board and the manner in which local boards of education are required to elect ISD board members. This bill also requires that ISD boards adopt specific travel and conflict of interest policies.
- HB 5850 – Penalties – provides for misdemeanor and/or felony penalties for violations of laws related to prohibited expenditures, violations of competitive bidding requirements and misuse of bond proceeds.
- HB 5839 – Millages – sets a duration on millages of not more than 20 years and specifies that the proceeds of vocational education millages and special education millages shall not be spent on anything other than operations. The bill also specifies that bond proceeds for vocational education programs and special education programs shall not be spent on anything other than facilities for those respective programs.
- HB 5457 – Audits – The Department of Treasury will randomly select 5 intermediate school districts every 2 years to be audited under this bill. The ISD will choose the auditor and notify Treasury who they are. The Department of Treasury is required to pay the costs of these audits. The audit have a minimum of 3 of the following 8 items audited:
  1. Whether the ISD is adhering to ethics policies.
  2. Whether the ISD is adhering to the conflict of interest policies of the district.
  3. Whether contracts have been modified in the audit period to add financial obligation to the ISD and the modification was not competitively bid.
  4. Whether the ISD complied with FOIA requests and costs charged were permitted under the act.
  5. Whether the ISD adhering to travel guidelines in policy or statute.
  6. Whether the ISD has accurately accounted for and reported salary and benefit information regarding ISD administrators.
  7. Whether the ISD has used public funds in violation of the law to pay for food, gifts, or other items that were not used for instructional purposes, as defined by the ISD.
  8. Whether taxes levied for vocational and special education were expended appropriately.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Shiawassee Regional Educational Service District

Page 3

August 16, 2005

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Shiawassee Regional Educational Service District's Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lewis & Knopf P.C.*

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